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SENATE BILL 2123

By Cooper

AN ACT to amend Tennessee Code Annotated, Section 5-8-301; Section 6-56-106 and Title 9, Chapter 21, relative to investment of idle funds by local governments.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF TENNESSEE:

SECTION 1. Tennessee Code Annotated, Sections 5-8-301 and 6-56-106, are amended by deleting these sections in their entirety and by substituting instead the following language:

All idle funds shall be invested to the maximum extent practical in accordance with Section 2 of this act.

SECTION 2. Tennessee Code Annotated, Title 9, Chapter 21, is amended by adding the following language as a new, appropriately designated part::

Section _____. As used in this part the term "local government" means any county, municipality or metropolitan government in this state.

Section _____. (a) In order to provide a safe temporary medium for investment of idle funds, local governments are authorized to invest in the following:

- (1) Bonds, notes or treasury bills of the United States;
- (2) Nonconvertible debt securities of the following issuers:

- (A) The federal home loan bank;
- (B) The federal national mortgage association;
- (C) The federal farm credit bank; and
- (D) The student loan marketing association;

(3) Any other obligations not listed above which are guaranteed as to principal and interest by the United States or any of its agencies;

(4) Certificates of deposit and other evidences of deposit at state and federally chartered banks, and savings and loan associations. Notwithstanding any other public or private act to the contrary, all investments made pursuant to this subdivision shall be secured by collateral in the same manner and under the same conditions as state deposits under title 9, chapter 4, parts 1 and 4, or as provided in a collateral pool created under title 9, chapter 4, part 5.

(5) Obligations of the United States or its agencies under a repurchase agreement for a shorter time than the maturity date of the security itself if the market value of the security itself is more than the amount of funds invested; provided, that local governments may invest in repurchase agreements only if the state director of local finance approves repurchase agreements as an authorized investment, and if such investments are made in accordance with procedures established by the state funding board;

(6) Money market funds whose portfolios consist of any of the foregoing investments; provided, that such funds are on a list of such funds previously approved by the state director of local finance or are approved following a current request and added to such list, and if such investments are made in accordance with procedures established by the state funding board;

(7) The local government investment pool created by title 9, chapter 4, part 7;

(8)

(A) Local governments having a population in excess of twenty thousand (20,000) according to the 1990 federal census or any subsequent federal census may also permit investment of idle funds in the following investment instruments:

(i) Prime banker's acceptances which are eligible for purchase by the federal reserve system; and

(ii) Prime commercial paper which is rated at least A1 or equivalent by at least two (2) nationally recognized rating services.

(B) Investment in such instruments shall first be authorized by the local government's legislative body, acting by resolution or ordinance. In addition, investment in such instruments shall be prohibited until the legislative body has adopted written policies to govern the use of such instruments, with such policies being no less restrictive than those established by the state funding board to govern state investments in such instruments; and

(9) The local government's own bonds or notes issued in accordance with title 9, chapter 21.

(b) The investments listed in subdivisions (a)(1)-(4) and in money market funds may have a maturity of not greater than two (2) years from date of investment; however, excess cash, which shall be determined as that idle operating (general) fund cash in excess of one hundred and twenty percent (120%) of budgeted operating expenses, may be invested in instruments having a maturity not greater than five (5) years from the date of investment; provided, such investments may have a maturity of greater than five(5) years from the date of investment if such maturity is approved by the state director of local finance and subject to the requirements of subsection (e).

(c) Proceeds of bonds, notes and other obligations issued by local governments, reserves held in connection therewith and the investment income therefrom, may be invested in obligations which:

(1) Are rated in either of the two (2) highest rated categories by a nationally recognized rating agency of such obligation;

(2) Are direct general obligations of a state of the United States, or a political subdivision or instrumentality thereof, having general taxing powers; and

(3) Have a final maturity on the date of investment of not to exceed twenty-four (24) months or which may be tendered by the holder to the issuer thereof, or an agent of the issuer, at not less than twenty-four (24) month intervals.

Such proceeds and the investment income thereon may also be invested as otherwise set forth in this section.

(d) The investments authorized by this section are in addition to those authorized in any other general law or in any municipality's charter.

(e)

(1) Not more than twenty percent (20%) of the lowest idle fund balance in the last five (5) years or twenty percent (20%) of idle funds available at the time of investment, whichever is less, may be invested in maturities greater than two (2) years but not greater than five (5) years from the date of investment.

(2) No idle funds may be invested for a maturity of greater than two (2) years, unless the local government first appoints an investment committee in accordance with the provisions of §5-8-302 or §5-21-105 for those purposes established in such section and unless such investment committee gives its prior approval to invest idle funds for a maturity of greater than two (2) years. If such

investment committee gives its prior approval, idle funds may be invested in maturities of up to five (5) years.

(3) Under subdivision (2) of this section, the investment committee may approve investment in maturities of greater than five years. Any such investment shall also be approved by the state director of local finance. The individual designated to invest the funds shall submit to the state director of local finance in writing the infrequent and unusual occurrence which generated idle funds under subdivision (e)(2), the medium of investment and the maturity approved by the investment committee.

SECTION 3. This act shall take effect July 1, 2000, the public welfare requiring it.